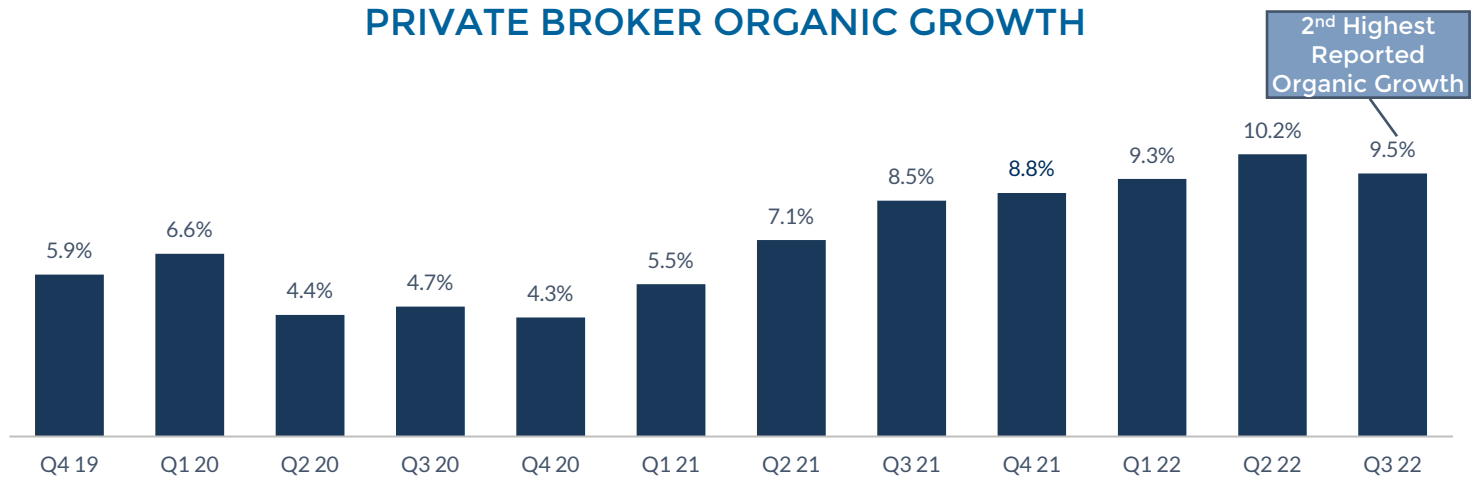




## QUICK HITS

- Agents and brokers posted organic growth of 9.5% in Q3 2022, the second highest reported growth rate since the *Growth & Profitability Survey* was launched in 2008. However, this result was a 70-basis point decline from Q2 2022 (10.2%).
- Public broker valuations fared better than the broader market but decreased slightly from Q2 levels as economic uncertainty persisted.
- The Federal Funds Rate (i.e., the interest rate on balances held at Federal Reserve banks) has risen from 0.08% at year-end 2021 to 2.56% as of the end of September and is 3.08% today.
- Deal activity from highly-levered private equity backed brokers has declined through September 30, as evidenced by the year-over-year decline in reported transactions (369) vs. 2021 (631).
- In the current economic environment, there is a flight to quality for both sellers and buyers. More conservatively levered private equity backed and public brokers are best positioned in the current M&A market.
- Despite economic headwinds, rising inflation, and interest rates, valuations of privately held agencies are holding at all time highs due to strong buyer demand.

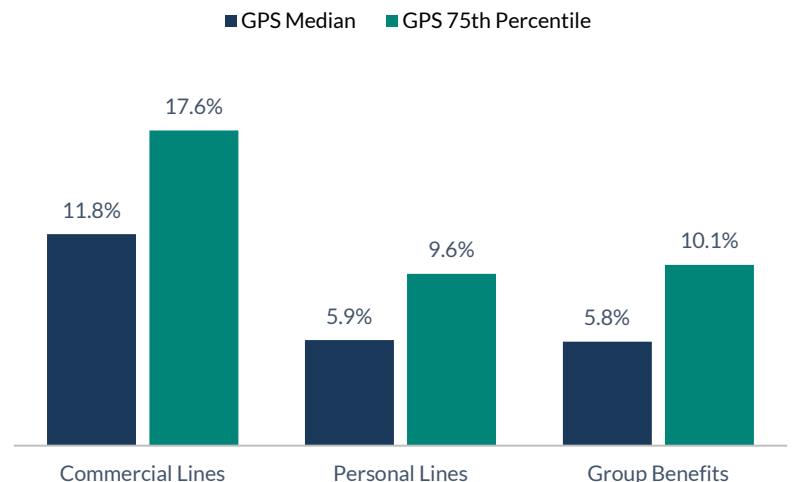
## PRIVATE BROKER ORGANIC GROWTH



Source: Reagan's Growth & Profitability Survey ("GPS").

## ORGANIC GROWTH BY LINE OF BUSINESS

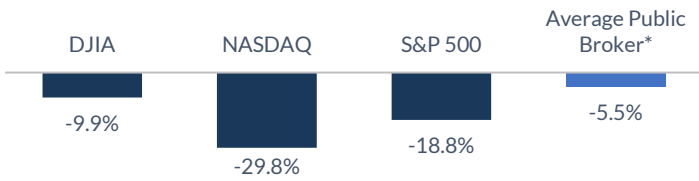
- Commercial lines posted its highest Q3 organic growth rate on record at 11.8%, double the pace of personal lines and group benefits.
- Personal lines recorded its highest quarterly organic growth rate in GPS history at 5.9% as brokers are seeking to round out accounts and create stickier client relationships.
- Group benefits organic growth has continued to rebound from COVID-driven declines. Companies are focused on making their workplace a desirable destination and are more focused than ever on comprehensive and generous group benefits packages.
- Top quartile performance in both personal lines and group benefits was ~10%, while top quartile performance in commercial lines was a robust 17.6%. Top performing brokers are setting the market from a valuation perspective and focused on new business production in addition to benefiting from a hardening rate environment.



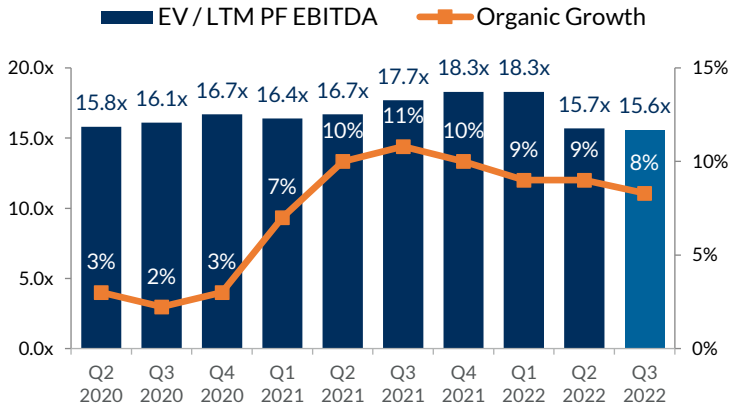
Source: Reagan's Organic Growth & Profitability Survey, Q3 22 Results.

PUBLIC BROKER PERFORMANCE AND VALUATIONS

October 31, 2022 YTD Stock Performance



Public Broker Organic Growth and Valuations

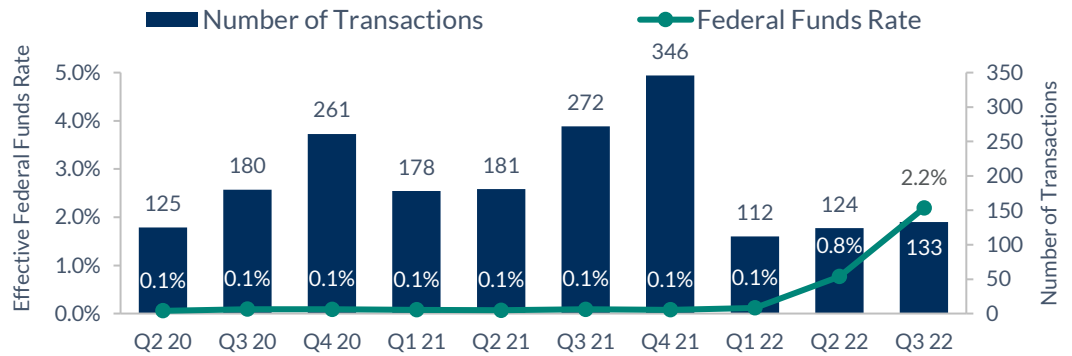


\* Includes AON, AJG, BRO, MMC, WLTW. Source: Public Broker SEC Filings, market data.

- Public markets have been on a rollercoaster so far in 2022. Heading into October, the Dow Jones Industrial Average was down 20.95% in 2022 before rallying during the month to finish down 9.9% for the year.
- Public brokers have fared much better in 2022 than the broader market. On average, established public brokers' share prices (BRO, AON, WTW, MMC, AJG) are down 5.5% as of the end of October. Said another way, macro developments have had less of an impact on investors' expectations of agent and broker performance than they have had on the market as a whole.
- Public brokers reported historically strong organic growth results in Q3 2021. However, organic growth has decelerated over the past year.
- Market volatility paired with decelerating organic growth from public brokers has led to a pull back in public broker valuations - below 16.0x for the first time in two years.
- Some public brokers have stated they are focused on deleveraging as the cost of debt increases while others have leaned into acquisitions and are winning marquee, high quality deals. As interest rates rise, public brokers, who have lower levels of leverage, are ideally positioned to continue to win in the acquisition marketplace.
- GSHD, BRP and RYAN are excluded from this analysis given their relatively-new public broker status.

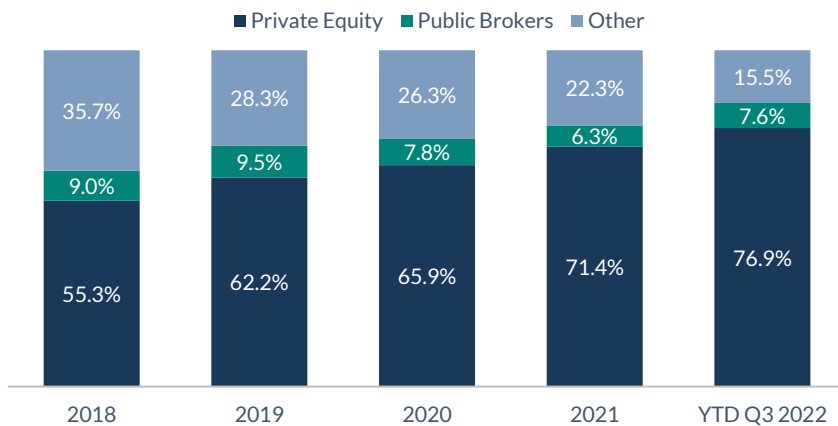
INTEREST RATE AND M&A TRANSACTIONS BY QUARTER

- Interest rates have risen from 0.08% at year end 2021 to 3.08% today.
- Year-over-year transactions are down from 2021 (631 v. 369 through September 30).
- The decline in deal activity is largely a result of a record 2021. However, highly-levered buyers have reduced their M&A activity as interest rates continue to rise.



Source: Board of Governors of the Federal Reserve System and S&P Capital IQ.

SHARE OF M&A TRANSACTIONS BY BUYER TYPE



- Private equity backed brokers have dominated the acquisition marketplace in recent years - representing more than half of all reported transactions.
- Private equity accounted for the highest share of transactions of any period in YTD Q3 2022 period.
- However, as the cost of debt increases with every interest rate increase, the percentage of acquisitions closed by private equity could decline.
- Public brokers, privately-held firms with minority capital and low levered private equity backed brokers are well-positioned to grab market share.

Source: S&P Capital IQ.

## M&A VALUATIONS



- While public broker multiples contracted in Q3, private broker valuations remain at all-time highs.
- Due to strong demand from over 50 well-capitalized buyers and still relatively low cost-of-capital available, multiples have expanded slightly in 2022.
- The chart to the left details the typical guarantee and earn-out multiples being paid by strategic acquirers for a well-run agency with \$3M - \$10M in revenue.
- The typical guaranteed valuation multiple increased to 12.5x, representing over a 100% increase vs. 2010.

Source: Reagan Consulting analysis.

## DEAL SPOTLIGHT

**Date:** On August 8, 2022, Arthur J. Gallagher & Co. announced the acquisition of the Denver Agency ("Denver").



- Denver, based in Denver, CO, specializes in serving high-net-worth and ultra-high-net-worth clients throughout the U.S.
- The Denver partnership represented a strategic expansion opportunity for AJG to expand their high-net-worth personal lines specialty expertise.
- Denver had a consistent track record of top quartile organic growth performance fueled by its relentless focus on the client experience and unique hiring and development model.
- Gallagher has completed 13 transactions year-to-date, consistent with their 2021 activity.

## RECENT REAGAN TRANSACTIONS

REAGAN SECURITIES served as financial advisor to

**NULTY INSURANCE**  
Kalamazoo, MI

in its sale to

**Keystone Agency Partners**

2022

REAGAN SECURITIES served as financial advisor to

**Allegacy | BENEFIT SOLUTIONS**  
Winston-Salem, NC

in its partnership with

**Hi GROUP**

2022

REAGAN SECURITIES served as financial advisor to

**CAROUSEL CAPITAL**  
Charlotte, NC

in its acquisition of

**RELIANCE PARTNERS**

2022

REAGAN SECURITIES served as financial advisor to

**DENVER AGENCY insurance design**  
Denver, CO

in its sale to

**Gallagher**

2022

REAGAN SECURITIES served as financial advisor to

**PWSC HOME EXPERTS**  
Chantilly, VA

in its partnership with

**pcf**

2022

REAGAN SECURITIES served as financial advisor to

**HOLMAN AND COMPANY Insurance & Risk Advisors**  
Alpharetta, GA

in its sale to

**HIGGINBOTHAM**

2022

REAGAN SECURITIES served as financial advisor to both firms

**BYARS | WRIGHT**  
Jasper, AL

merged with

**PM**  
Tuscaloosa, AL

2022

REAGAN SECURITIES served as financial advisor to both firms

**YORK International**  
Harrison, NY

in its sale to

**IMA**

2022

Securities transactions offered through Reagan Securities, Inc., member of FINRA and SIPC.